

Message Text

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ACTION EA-09

INFO OCT-01 IO-13 ISO-00 EUR-12 FEA-01 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07

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P 170130Z NOV 76

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TO SECSTATE WASHDC PRIORITY 3635

INFO MTN GENEVA PRIORITY 2045

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 17051/1

DEPT. PASS OECD CAPITALS AS INFO PRIORITY

E.O. 11652: GDS

TAGS: ETRD, EGEN, JA

SUBJECT: JAPAN "MANAGES" ITS EUROPE TRADE PROBLEM

REF: TOKYO 15904

SUMMARY: JAPAN HAS DECIDED THAT CONCRETE STEPS MUST BE TAKEN TO AVERT IMPOSITION OF UNILATERAL RESTRICTIONS ON JAPANESE EXPORTS BY THE EC. SOME INDUSTRIES HAVE AGREED TO CURTAIL PLANNED EXPORTS, AND DESPITE GENUINE DOUBTS ABOUT WHAT IT CAN DO, THE GOJ HAS PROMISED TO PROMOTE IMPORTS. JAPAN IS "MANAGING" WHAT IT HOPES IS A SHORT-TERM PROBLEM WITH AN EYE ON REPERCUSSIONS FOR US-JAPAN ECONOMIC RELATIONS AND ITS LONG-TERM TRADE PROSPECTS UNDER A LIBERAL TRADE SYSTEM. BUT EUROPEAN CHARGES OF UNFAIR COMPETITION ARE DEEPLY RESENTED AS BEING UNJUST, AND PROLONGED FRIC-TIONS MAY UNDERMINE JAPAN'S COMMITMENT TO A FREER WORLD TRADING SYSTEM WITH SERIOUS IMPLICATIONS FOR US ECONOMIC AND POLITICAL INTERESTS. END SUMMARY.

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1. DESPITE CONSIDERABLE GRUMBLING FROM THE INDUSTRIES CONCERNED (AUTOMOBILES, SHIPBUILDING, BALL BEARINGS, IRON AND STEEL, AND ELECTRONICS) THAT IN PROMISING POSITIVE ACTION, KEIDANREN PRESIDENT DOKO EXCEEDED HIS MANDATE DURING HIS RECENT TRIP TO EUROPE. THE GOJ HAS APPARENTLY DECIDED NOT TO RISK INCURRING THE UNILATERAL IMPOSITION OF RESTRICTIONS BY THE EC ON JAPANESE EXPORTS. PRIME MINISTER MIKI HAS PUBLICLY SUPPORTED DOKO'S PROPOSAL TO TAKE SPECIAL MEASURES TO PROMOTE EUROPEAN IMPORTS AND MITI MINISTER KOMOTO HAS ANNOUNCED THAT THE MINISTRY HAS BEGUN TO STUDY WHICH MEASURES WOULD BE MOST EFFECTIVE. MITI HAS ALSO ANNOUNCED THAT THE STEEL AGREEMENT WILL BE EXTENDED A YEAR AND THAT THE MINISTRY WILL ENCOURAGE SMALLER STEEL MAKERS TO EXERCISE SELF-RESTRAINT. OTHER OFFICIAL MEASURES UNDER DISCUSSION INCLUDE EXEMPTING FOREIGN-MADE AUTOMOBILES FROM GOJ EMISSION CONTROL STANDARDS, SIMPLIFICATION OF IMPORT PROCEDURES AND DISPATCHING A BUYERS' MISSION TO EUROPE (THE FIRST TWO WOULD OF COURSE BENEFIT THE US AS WELL). IN THE MEANTIME, KEIDANREN IS MEETING WITH THE FIVE INDUSTRIES UNDER ATTACK TO DISCUSS "ORDERLY MARKETING ARRANGEMENTS."

2. THE STEPS, ACCORDING TO OUR CONTACTS, ARE FRANKLY BEING TAKEN TO PROVIDE AN ESCAPE VALVE TO RELIEVE PRESSURE ON THE HIGH LEVEL EC-JAPAN CONSULTATIONS NOVEMBER 15-16. (THE JAPANESE DELEGATION IS HEADED BY MOFA DEPUTY MINISTER YOSHINO.) AS NOTED REFTTEL, THERE IS A STRONG BELIEF HERE THAT EUROPEAN CRITICISM IS NOT SUPPORTED BY OBJECTIVE FACT. A MOF OFFICIAL FOR EXAMPLE, NOTED TO US THAT JAPANESE IMPORTS TO THE EC HAVE BEEN GROWING LESS RAPIDLY THAN OVER-ALL EC IMPORTS, AND THAT EVEN IN THE TROUBLESOME BALL BEARINGS INDUSTRY THE JAPANESE HAVE ONLY AN 8 PERCENT SHARE OF IMPORTS. NICELY PUT, THE JAPANESE BELIEVE THEIR EUROPEAN PROBLEMS RESULT FROM "MISUNDERSTANDINGS". MORE BLUNTLY, THEY SUSPECT THE IMAGE OF JAPAN AS A "NATION OF TRANSISTOR SALESMEN" STILL INFLUENCES EUROPEAN ATTITUDES. "WHY", THEY ASK, "ISN'T EUROPEAN

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IRE DIRECTED AT THE US WHICH ENJOYS A MUCH LARGER FAVORABLE BALANCE OF TRADE?"

3. DESPITE DEEP UNDERLYING RESENTMENT, JAPAN'S TOP POLITICAL LEADERSHIP IS NOW REALIZING THAT JAPANESE EXPORTS TO EUROPE HAVE BECOME A SERIOUS POLITICAL PROBLEM AND THAT IF NOTHING IS DONE THE EC MAY IMPOSE RESTRICTIONS, PERHAPS IGNITING OTHER PROTECTIONIST

FIRES AND, WORST OF ALL, MIGHT EVENTUALLY SPREAD TO THE UNITED STATES. JAPAN GREATLY BENEFITS FROM THE EXISTING LIBERAL TRADING SYSTEM. THE JAPANESE FEAR THAT IN RESPONDING TO DOMESTIC POLITICAL PRESSURES WHICH THE JAPANESE PERCEIVE AS BASICALLY GENERATED BY MACRO-ECONOMIC STAGNATION AND STRUCTURAL DEFECTS, THE GOVERNMENTS OF THE WEST MAY UNWITTINGLY UNRAVEL THE POST-WAR SYSTEM ITSELF. BUT IN ASSUAGING WHAT THE JAPANESE HOPE ARE TRANSITORY TENSIONS THAT WILL LARGELY DIS-SIPATE AS WORLD DEMAND STRENGTHENS, THE GOJ IS ACUTELY AWARE THAT THE US MAY OBJECT THAT JAPAN IS SOLVING ITS EUROPEAN PROBLEM AT THE EXPENSE OF THE US.

4. OF THE IMMEDIATE POLICY RESPONSES AVAILABLE TO JAPAN FOR "MANAGING" THE CURRENT TENSIONS WITH EUROPE, IMPORT PROMOTION IS BY FAR THE MOST ATTRACTIVE. INCREASED IMPORTS WOULD CONFORM TO OTHER STATED GOJ OBJECTIVES OF INFLATION CONTROL AND A HIGHER STANDARD OF LIVING. BUT MANY HERE DOUBT--AND WE SHARE THEIR DOUBTS--THAT THE GOJ CAN TAKE ANY REALLY EFFECTIVE MEASURES IN THE SHORT RUN. MOST FINISHED PRODUCTS THE EUROPEANS WANT TO SELL ARE ALREADY PRODUCED HERE. SO LONG AS JAPANESE INDUSTRY HAS EXCESS CAPACITY, IT IS HARD TO SEE HOW MANY EUROPEAN PRODUCTS WOULD BE COMPETITIVE.

NOTE BY OCT: NOT PASSED ABOVE ADDRESSEES.

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INFO MTN GENEVA PRIORITY 2046

C O N F I D E N T I A L SECTION 2 OF 2 TOKYO 17051/2

DEPT PASS OECD CAPITALS AS INFO PRIORITY

5. ALTHOUGH HIGHLY VISIBLE, MEASURABLE AND QUICKLY IMPLEMENTABLE, EXPORT RESTRAINTS ARE BECOMING LESS AND LESS PALATABLE TO THE JAPANESE. AS ONE HIGH-RANKING MOF OFFICIAL TOLD US, "WE ARE INCREASINGLY CONCERNED THAT YOU (WESTERNERS) THINK THAT BY SIMPLY COMPLAINING LOUDLY, WE WILL YIELD." IN ADDITION TO THE PROBLEM OF FINDING MARKETS ELSEWHERE--AND THUS RISKING NEW INTERNATIONAL FRICTIONS--THE GOJ IS FINDING IT INCREASINGLY HARD TO CONVINCE JAPANESE INDUSTRY THAT SUCH RESTRAINTS ARE POLITICALLY NECESSARY. FOR MATURE JAPANESE INDUSTRIES, SUCH AS SHIPBUILDING, ARGUING THAT JAPAN HAS TOO LARGE A SHARE OF THE PIE SIMPLY DOES NOT WASH. OTHER INDUSTRIES MAY, HOWEVER, ACCEPT GOJ "GUIDANCE" DEPENDING IN PART ON THE INDUSTRY'S ASSESSMENT OF FUTURE MARKET CONDITIONS. AN EXPORT DIVISION MANAGER IN A MAJOR JAPANESE STEEL COMPANY, FOR EXAMPLE, TOLD US THAT HIS FIRM ANTICIPATES STRONG SALES TO CHINA AND LATIN AMERICA NEXT YEAR. LIMITING STEEL EXPORTS TO EUROPE, CONFIDENTIAL

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THEREFORE, MAY NOT HURT MUCH, ESPECIALLY IF THE JAPANESE SHIPBUILDING INDUSTRY REFUSES TO KNUCKLE UNDER.

6. COMMENT: WE HAVE BEEN STRUCK BY THE DEGREE OF RESENTMENT WITH WHICH THE JAPANESE, ESPECIALLY YOUNGER OFFICIALS, HAVE GREETED EUROPEAN CHARGES. DOKO HIMSELF HAS BEEN CRITICIZED IN THE PRESS FOR NOT BEING MORE FORTHRIGHT IN JAPAN'S DEFENSE DURING HIS EUROPEAN TRIP. THE JAPAN-EUROPE RELATIONSHIP IS NOT CHARACTERIZED BY A BROAD RANGE OF SOCIAL, POLITICAL AND SECURITY TIES. IGNORANCE RUNS DEEP ON BOTH SIDES AND IT MAY WELL BE THAT AS THE OLDER GENERATION OF LEADERS, TO WHOM "SILENCE IS GOLDEN," PASSES FROM THE SCENE, EC-JAPAN RELATIONS COULD BECOME INCREASINGLY FRACTIOUS.

7. THIS COULD HAVE SERIOUS CONSEQUENCES FOR US INTERESTS AS WELL. WE SHARE THE JAPANESE WORRY THAT PSYCHOLOGICALLY, EUROPEAN ACTIONS AGAINST JAPAN COULD FUEL PROTECTIONIST SENTIMENT IN THE US TO THE DETRIMENT OF THE ENTIRE LIBERAL TRADE STRUCTURE. WE HAVE BEEN FOR YEARS NOT SO SUBTLY TRYING TO PUSH JAPAN

ITSELF OUT OF ITS OWN THINK-POOR HABITS OF PROTECTION-
ISM. THE EUROPEANS ARE QUITE CORRECT IN NOTING THAT JAPAN
COULD TAKE A NUMBER OF STEPS TO DISMANTLE ITS RESIDUAL
IMPEDIMENTS TO IMPORTS, BUT JAPAN'S MARKETS TODAY ARE UNQUESTION-
ABLY MORE OPEN THAN THEY WERE EVEN 10 YEARS AGO.
BUT THE JAPANESE COMMITMENT TO A LIBERAL TRADE POLICY
AT HOME IS TENUOUS AND COULD EVAPORATE IF JAPAN AP-
PREHENDS THAT ITS MAJOR TRADING PARTNERS ARE SHUTTING
THEIR DOORS AGAINST JAPAN.

8. JAPAN'S CLASH WITH WESTERN EUROPE IS THE BITTER-
SWEET FRUIT OF A SUCCESSFUL EFFORT, FAIR OR UNFAIR,
TO DIVERSIFY ITS OVERSEAS MARKETS. WHILE THE US
SHARE IN JAPAN'S EXPORTS HAS BEEN DECLINING STEADILY
FROM OVER A THIRD TO AROUND 20 PERCENT, WESTERN
EUROPE NOW ACCOUNTS FOR A LITTLE MORE THAN 10 PERCENT
OF JAPAN'S EXPORTS. WHILE WE MUST WEIGH THE EFFECTS
ON US EXPORTS OF JAPANESE COMPETITION IN THIRD MARKETS,
SUCH AS EUROPE, WE CONTINUE TO BELIEVE THAT DIVERSI-
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FICATION OF JAPAN'S EXPORT MARKETS AWAY FROM THE US
MARKET IS USEFUL. A JAPAN WITH TRULY DIVERSIFIED
AND BALANCED EXTERNAL TRADE RELATIONS WOULD BE A
MORE ECONOMICALLY, AND THUS POLITICALLY STABLE ALLY,
AND A MORE MATURE MEMBER OF THE INTERNATIONAL ECONOMIC
COMMUNITY.
HODGSON

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